

UNITED STATES OF AMERICA  
POSTAL REGULATORY COMMISSION  
WASHINGTON, DC 20268-0001

Before Commissioners:

Robert G. Taub, Acting Chairman;  
Tony Hammond, Vice Chairman;  
Mark Acton; and  
Nanci E. Langley

Periodic Reporting  
(Proposal Twelve)

Docket No. RM2016-3

NOTICE OF PROPOSED RULEMAKING ON ANALYTICAL PRINCIPLES  
USED IN PERIODIC REPORTING  
(PROPOSAL TWELVE)

(Issued November 24, 2015)

I. INTRODUCTION

On November 20, 2015, the Postal Service filed a petition pursuant to 39 CFR § 3050.11 requesting that the Commission initiate an informal rulemaking proceeding to consider changes to analytical principles relating to the Postal Service's periodic reports.<sup>1</sup> Proposal Twelve is attached to the Petition and identifies the proposed analytical method change that relates to the treatment of costs for vehicles used on city carrier letter routes within various cost components of the Cost and Revenue Analysis

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<sup>1</sup> Petition of the United States Postal Service for the Initiation of a Proceeding to Consider Proposed Changes in Analytical Principles (Proposal Twelve), November 20, 2015, at 1 (Petition).

(CRA) report. *Id.* The Postal Service concurrently filed two library references, along with an application for non-public treatment for one.<sup>2</sup>

## II. SUMMARY OF PROPOSAL

The Postal Service requests this rulemaking to re-align certain calculations within the CRA report to be consistent with the methodology approved by the Commission in Proposal Thirteen.<sup>3</sup> Petition at 1. Acknowledging that the Postal Service will soon submit the FY 2015 Annual Compliance Report, the Postal Service emphasizes that immediate consideration of Proposal Twelve is necessary to avoid a mismatch between the current methodology for the treatment of ancillary vehicle cost matters and the framework approved in Proposal Thirteen. *Id.* at 1-2. Under Proposal Twelve, the Postal Service proposes two methodological changes: attribution of city carrier letter route vehicle costs and calculation of office and street proportions that are used in the calculation of costs relating to city carrier labor. Petition, Proposal Twelve at 1.

### A. Attributing City Carrier Letter Route Vehicle Costs:

The Postal Service proposes to change the methodology for attributing costs relating to vehicles used on city carrier letter routes, including Motor Vehicle Service (MVS) Labor in Cost Segment 12.1, MVS Supplies and Materials in Cost Segment 12.2, and Vehicle Depreciation in Cost Segment 20. *Id.*

*Current methodology:* The Postal Service explains that currently city carrier letter route vehicle costs are divided into two pools: Delivery Activities and Network Travel for

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<sup>2</sup> Notice of Filing of USPS-RM2016-3/1, USPS-RM2016-3/NP1, and Application for Nonpublic Treatment, November 20, 2015 (Notice). Library Reference USPS-RM2016-3/1 contains workbooks displaying the calculation and cost impacts of implementing the proposed methodology. Library Reference USPS-RM2016-3/NP1 contains supporting non-public material. The Notice incorporates by reference the Application for Non-Public Treatment of Materials contained in Attachment Two to the December 29, 2014, United States Postal Service Fiscal Year 2014 Annual Compliance Report. Notice at 1. See 39 CFR part 3007 for information on access to non-public material.

<sup>3</sup> Docket No. RM2015-7, Order No. 2792, Order Approving Analytical Principles Used in Periodic Reporting (Proposal Thirteen), October 29, 2015.

motorized letter routes. *Id.* at 2. The Postal Service reports that “[i]n FY 2014, these respective proportions were approximately 42 and 58 percent.” *Id.* The Postal Service states that the current methodology multiplies each cost pool by the appropriate variability to determine attributable costs and that these “attributable costs are assigned to products in the same proportions as Cost Segment 7 letter route Delivery Activities costs.” *Id.*

*Proposed Methodology:* Building upon the new methodology approved by the Commission in Proposal Thirteen for the treatment of labor costs on city delivery letter routes, the Postal Service proposes to “calculate the attributable vehicle costs by multiplying the letter route vehicle costs by the new overall letter route street variability” and to assign the attributable costs to products using the proportions based on all letter route street costs. *Id.* The Postal Service represents that Proposal Twelve would also change the component structure of the CRA for Cost Segments 12 and 20. *Id.* at 4. Specifically, in Cost Segment 12, the Network Travel components 86 and 95 would be removed and components 83 and 92, currently named Delivery Activities, would be renamed City Delivery Letter Routes. *Id.* In Cost Segment 20, components 222 and 225 for Delivery Activities and Network Travel would be removed. *Id.* Component 223 would be established as City Delivery Special Purpose Routes (SPR) to assign SPR vehicle depreciation costs. *Id.* Finally, component 221 would be reactivated and named City Delivery Letter Routes. *Id.*

*Rationale:* The Postal Service represents that Proposal Twelve would align the calculation of vehicle use costs with the new street time methodology. *Id.* at 5. The Postal Service claims that this treatment of city carrier vehicle costs is consistent with the long-standing practice of linking the treatment with the direct labor that uses these vehicles. *Id.* The Postal Service asserts that the “proposed methodology for vehicle use cost[s] recognizes that letter route carriers use their vehicles throughout their time on the street, while delivering mail, traversing the route, and while traveling to and from the route.” *Id.*

*Impact:* The Postal Service anticipates that under Proposal Twelve higher proportions of MVS Labor, MVS Supplies, and Vehicle Depreciation costs for city carriers will be attributed to products. *Id.* The Postal Service states that currently “Network Travel is not attributed and letter route Delivery Activities costs has a variability of 43 percent, which results in a combined variability of 18 percent.” *Id.* Under Proposal Twelve, the Postal Service represents that “the city carrier letter route costs for MVS Labor, MVS Supplies, and Vehicle Depreciation costs are attributed in the same proportion as all letter route street activities in Cost Segment 7, which results in an attribution level of 36 percent.” *Id.* at 5-6. For FY 2014, the Postal Service projects that Proposal Twelve would increase attributable costs by \$185 million. *Id.* at 6. The Postal Service illustrates the cost impact by product for Proposal Twelve in Table 1. *Id.* at 7.

B. Calculating Office and Street Proportions:

The Postal Service proposes a minor change to the methodology for calculating office and street proportions that are used in the calculation of costs relating to city carrier labor for Vehicle Hire in Cost Segment 12.3 and Carfare and Driveout in Cost Segment 13.2. *Id.* at 1.

*Current methodology:* The Postal Service explains that it currently “develops office and street proportions for foot and motorized routes using [In-Office Cost System] IOCS office costs by route type and street costs by delivery mode.” *Id.* at 2.

*Proposed Methodology:* Building upon the new methodology approved by the Commission in Proposal Thirteen, the Postal Service proposes to develop office and street proportions for foot and motorized routes using Delivery Operations Information System workhours. *Id.* The Postal Service would also use city carrier costs for Delivery Activities and Network Travel to further divide the street proportions among these components. *Id.* at 4.

*Rationale:* The Postal Service claims that “Proposal Twelve would also align the calculation of office and street proportions with the new street time methodology.” *Id.* at 5.

*Impact:* The Postal Service illustrates the change in office and street proportions for Proposal Twelve in Table 2. *Id.* at 8.

### III. INITIAL COMMISSION ACTION

The Commission establishes Docket No. RM2016-3 for consideration of matters raised by the Petition. Additional information concerning the Petition may be accessed via the Commission’s website at <http://www.prc.gov>. Interested persons may submit comments on the Petition and Proposal Twelve no later than December 4, 2015. Reply comments are due no later than December 9, 2015. Pursuant to 39 U.S.C. § 505, Jennaca D. Upperman is designated as officer of the Commission (Public Representative) to represent the interests of the general public in this proceeding.

### IV. ORDERING PARAGRAPHS

*It is ordered:*

1. The Commission establishes Docket No. RM2016-3 for consideration of the matters raised by the Petition of the United States Postal Service for the Initiation of a Proceeding to Consider Proposed Changes in Analytical Principles (Proposal Twelve), filed November 20, 2015.
2. Comments are due no later than December 4, 2015. Reply comments are due no later than December 9, 2015.
3. Pursuant to 39 U.S.C. § 505, the Commission appoints Jennaca D. Upperman to serve as officer of the Commission (Public Representative) to represent the interests of the general public in this docket.

4. The Secretary shall arrange for publication of this Order in the *Federal Register*.

By the Commission.

Stacy L. Ruble  
Secretary